

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Pellston Public Schools</b>	County <b>Emmet/Cheboygan</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>7/28/05</b>	Date Accountant Report Submitted to State: <b>10/12/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

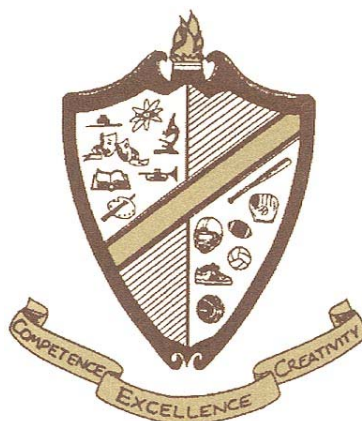
You must check the applicable box for each item below

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980)
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended)
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Rehmann Robson</b>			
Street Address <b>902 S. Huron Street, PO Box 250</b>		City <b>Cheboygan</b>	State <b>MI</b>
Accountant Signature <i>Annette Eustice, CPA, CGFM</i>		ZIP <b>49721</b>	Date <b>10/10/05</b>

# **PELLSTON PUBLIC SCHOOLS**



## **FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2005**

**PELLSTON PUBLIC SCHOOLS**  
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**FOR THE YEAR ENDED JUNE 30, 2005**

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## INDEPENDENT AUDITORS' REPORT

July 28, 2005

Board of Education  
Pellston Public Schools  
Pellston, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **Pellston Public Schools**, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of **Pellston Public Schools'** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of **Pellston Public Schools** as of June 30, 2005, and the respective changes in financial position thereof and the budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2005, on our consideration of **Pellston Public Schools'** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages I–VI is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the **Pellston Public Schools** basic financial statements. The supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of **Pellston Public Schools**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Management's Discussion and Analysis

As management of the Pellston Public Schools (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005.

### Financial Highlights

- The liabilities of the District exceeded its assets at the close of the most recent fiscal year by \$4,442,159 *net assets (deficit)*. Of this amount, \$164,457 is *unrestricted net assets* which may be used to meet the District's ongoing obligations, \$455,774 is restricted for debt service and \$11,385 is restricted for capital projects.
- The government's total net assets (deficit) increased by \$515,091.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$814,608, a decrease of \$47,977 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$308,788 or 5% percent of total General Fund expenditures.
- The District incurred \$575,000 and \$54,110 in new bonds and notes payable, respectively, and made principal payments of \$437,550 during the year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) District-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**District-wide financial statements.** The *District-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused sick or vacation leave).

Both of the District-wide financial statements present activities of the District that are principally supported by taxes and intergovernmental revenues. The governmental activities of the District include instruction, supporting services, food services and athletics. The District had no business-type activities as of and for the year ended June 30, 2005.

The District-wide financial statements can be found on pages 3-4 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the District-wide financial statements. However, unlike the District-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the District-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the District-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains 10 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund and the 1992 Debt Service Fund, which are considered to be major funds. Data from the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its General Fund and each special revenue fund. Budgetary comparison statements have been provided for the General Fund herein to demonstrate compliance with those budgets.

The basic governmental funds financial statements can be found on pages 5-9 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are *not* reflected in the District-wide financial statements because the resources of those funds are *not* available to support the District's own programs.

The basic fiduciary fund financial statement can be found on page 10 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 11-24 of this report.



**Other information.** The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining fund statements can be found on pages 25-26 of this report.

### **District-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, its liabilities exceeded assets by \$4,442,159 at the close of the most recent fiscal year. It is expected that a deficit will continue until such time as debt incurred by the Board of Education for facility improvements between 1993 and 2004 is substantially repaid and the value of the improved facilities is greater than the sum of outstanding bonds for the improvements.

By far the largest portion of the District's net assets (deficit) reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, equipment, and vehicles), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion (\$467,159) of the District's net assets (deficit) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$164,457 is *unrestricted net assets*.

#### **District's Net Assets (Deficit)**

	<u><b>2005</b></u>	<u><b>2004</b></u>
<b>Assets</b>		
Current and other assets	\$ 1,658,437	\$ 2,814,068
Capital assets, net	<u>6,575,845</u>	<u>6,574,065</u>
<b>Total assets</b>	<u><b>8,234,282</b></u>	<u><b>9,388,133</b></u>
<b>Liabilities</b>		
Current liabilities	1,443,895	2,476,267
Long-term liabilities outstanding	<u>11,232,546</u>	<u>10,838,934</u>
<b>Total liabilities</b>	<u><b>12,676,441</b></u>	<u><b>13,315,201</b></u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	(5,073,775)	(4,590,723)
Restricted	467,159	463,385
Unrestricted	<u>164,457</u>	<u>200,270</u>
<b>Total net assets (deficit)</b>	<u><b>\$ (4,442,159)</b></u>	<u><b>\$ (3,927,068)</b></u>

The District's net assets (deficit) increased by \$515,091 during the current fiscal year. Most of this decrease is due to depreciation. The District's blended enrollment is approximately 758.94 students.

## District's Changes in Net Assets (Deficit)

	<u>2005</u>	<u>2004</u>
<b>Revenues</b>		
Program revenues		
Charges for services	\$ 151,627	\$ 121,826
Operating grants and contributions	1,037,142	998,688
General revenues		
Property taxes	3,072,215	2,936,058
Grants and contributions not restricted to specific programs	2,731,468	2,909,074
Other	<u>18,855</u>	<u>13,975</u>
<b>Total revenues</b>	<b><u>7,011,307</u></b>	<b><u>6,979,621</u></b>
<b>Expenses</b>		
Instruction	3,768,785	3,736,763
Supporting services	1,915,545	1,959,501
Food services	246,251	200,678
Athletics	160,062	139,898
Interest on long-term debt	829,572	744,760
Depreciation – unallocated	<u>606,183</u>	<u>568,985</u>
<b>Total expenses</b>	<b><u>7,526,398</u></b>	<b><u>7,350,585</u></b>
<b>Change in net assets</b>	<b>(515,091)</b>	<b>(370,964)</b>
Net assets (deficit), beginning of year, (as restated – 2004)	<u>(3,927,068)</u>	<u>(3,556,104)</u>
<b>Net assets (deficit), end of year</b>	<b><u>\$ (4,442,159)</u></b>	<b><u>\$ (3,927,068)</u></b>

### Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental funds.* The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$814,608, a decrease of \$47,977 in comparison with the prior year. Approximately 43% of this total amount or \$347,449 constitutes *unreserved fund balance*, which is available for spending at the District's discretion. The remainder of fund balance is *reserved* to indicate that it is not available to fund current expenditures.

The General Fund is the principal operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$308,788. As a measure of the General Fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Fund balance represents approximately 5% of total General Fund expenditures.

The fund balance of the District's General Fund decreased by \$44,956 during the current fiscal year. This decrease is primarily attributable to additional interest expense not already accrued, additional MESSA expense due to a billing error, Emmet County chargebacks for taxes due not billed by the County and State Aid reduction resulting from 2005 homestead denials.

### **General Fund Budgetary Highlights**

Differences between the original and final amended budgets were relatively minor. As additional information became known during the fiscal year, budget amendments were made to recognize the additional revenue and/or planned expenditures related to various District programs.

### **Capital Asset and Debt Administration**

**Capital assets.** The District's investment in capital assets as of June 30, 2005, amounted to \$6,575,845 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, vehicles and equipment.

#### **District's Capital Assets** (net of depreciation, when applicable)

Land and improvements	\$ 77,250
Buildings and improvements	5,887,193
Vehicles	248,615
Equipment	<u>362,787</u>
<b>Total</b>	<b><u>\$ 6,575,845</u></b>

Additional information on the District's capital assets can be found in Note III C on page 17 of this report.

**Long-term debt.** At the end of the current fiscal year, the District had total bonded debt, installment contracts, accreted interest on capital appreciation bonds, accrued compensation and retirement payable outstanding of \$11,738,848. Of this amount, \$27,880 are "Durant Bonds" which are not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitations, and is payable solely from the State of Michigan.

The District incurred \$629,110 in new bonds and notes payable and made principal payments of \$437,550 during the year.

Additional information on the District's long-term debt can be found in Note III F on pages 19-21 of this report.

## **Factors Bearing on the District's Future**

The following factors were considered in preparing the District's budget for the 2005-2006 fiscal year:

- The Board anticipated a slight decrease in pupil membership in 2005-06, however an increase in State Aid of \$175 per full time membership was anticipated to offset the minimal loss.
- Due to the larger than average increase in taxable valuation, the district used most of the additional operating mill that was approved in 2005 to restore the non-homestead millage to 18 mills.
- Adjustments in spending in personnel, purchased services and supplies were made for 2005-06 in order to offset the increases in wages, benefits and increased costs for fuel anticipated for the fiscal year.
- Inflationary trends in the region compare favorable to national indices

## **Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Pellston Public Schools  
Superintendent of Schools  
172 N. Park St.  
Pellston, MI 49769-0016

## **BASIC FINANCIAL STATEMENTS**

## **DISTRICT-WIDE FINANCIAL STATEMENTS**

# PELLSTON PUBLIC SCHOOLS

## STATEMENT OF NET ASSETS

JUNE 30, 2005

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### Assets

#### Current assets

Cash and cash equivalents	\$ 888,709
Receivables	769,728

<b>Total current assets</b>	<b>1,658,437</b>
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Capital assets not being depreciated	35,000
Capital assets being depreciated, net	6,540,845

<b>Total assets</b>	<b>8,234,282</b>
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### Liabilities

#### Current liabilities

Accounts payable and accrued expenses	746,510
State aid note	191,083
Current portion of long-term debt	506,302

<b>Total current liabilities</b>	<b>1,443,895</b>
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<b>Noncurrent portion of long-term debt</b>	<b>11,232,546</b>
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<b>Total liabilities</b>	<b>12,676,441</b>
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### Net assets

Invested in capital assets, net of related debt	(5,073,775)
Restricted for	
Debt service	455,774
Capital projects	11,385
Unrestricted	164,457

<b>Total net assets (deficit)</b>	<b>\$ (4,442,159)</b>
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The accompanying notes are an integral part of these basic financial statements.

# PELLSTON PUBLIC SCHOOLS

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2005

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
<b>Governmental activities</b>				
Instruction	\$ 3,768,785	\$ 2,820	\$ 856,704	\$ (2,909,261)
Supporting services	1,915,545	20,264	26,597	(1,868,684)
Food services	246,251	90,103	153,841	(2,307)
Athletics	160,062	38,440	-	(121,622)
Interest on long-term debt	829,572	-	-	(829,572)
Depreciation - unallocated	606,183	-	-	(606,183)
<b>Total governmental activities</b>	<b>\$ 7,526,398</b>	<b>\$ 151,627</b>	<b>\$ 1,037,142</b>	<b>(6,337,629)</b>
<b>General revenues</b>				
Property taxes - operations				2,214,694
Property taxes - debt service				857,521
Grants and contributions not restricted to specific programs				2,731,468
Unrestricted investment earnings				18,855
<b>Total general revenues</b>				<b>5,822,538</b>
<b>Change in net assets</b>				<b>(515,091)</b>
Net assets (deficit), beginning of year				(3,927,068)
<b>Net assets (deficit), end of year</b>				<b>\$ (4,442,159)</b>

The accompanying notes are an integral part of these basic financial statements.



## **FUND FINANCIAL STATEMENTS**

# PELLSTON PUBLIC SCHOOLS

## BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2005

	General	1992 Debt Service Fund	Non- Major Funds	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 451,930	\$ 194,989	\$ 241,790	\$ 888,709
Taxes receivable	89,765	41,661	13,887	145,313
Due from other funds	-	-	92,874	92,874
Due from other governmental units	595,158	-	29,257	624,415
<b>Total assets</b>	<b>\$ 1,136,853</b>	<b>\$ 236,650</b>	<b>\$ 377,808</b>	<b>\$ 1,751,311</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 63,419	\$ -	\$ -	\$ 63,419
Salaries payable	382,076	-	8,010	390,086
Accrued expenses	158,103	-	1,341	159,444
Due to other funds	21,467	71,407	-	92,874
Due to other governmental units	11,917	-	-	11,917
Deferred revenue	-	-	27,880	27,880
State aid note	191,083	-	-	191,083
<b>Total liabilities</b>	<b>828,065</b>	<b>71,407</b>	<b>37,231</b>	<b>936,703</b>
<b>Fund balances</b>				
Reserved				
Debt service	-	165,243	290,531	455,774
Capital projects	-	-	11,385	11,385
Unreserved				
Designated special revenue funds	-	-	2,297	2,297
Undesignated special revenue funds	-	-	36,364	36,364
Undesignated General Fund	308,788	-	-	308,788
<b>Total fund balances</b>	<b>308,788</b>	<b>165,243</b>	<b>340,577</b>	<b>814,608</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,136,853</b>	<b>\$ 236,650</b>	<b>\$ 377,808</b>	<b>\$ 1,751,311</b>

Continued...

# PELLSTON PUBLIC SCHOOLS

## BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2005

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**Reconciliation of fund balance on the balance sheet for governmental funds to net assets of governmental activities on the statement of net assets**

**Fund balances - total governmental funds** **\$ 814,608**

Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds

Add	- capital assets	13,096,692
Deduct	- accumulated depreciation	(6,520,847)

The focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add	- deferred revenues	27,880
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds

Deduct	- bonds, notes and early retirement payables	(9,402,519)
	- interest accretion on capital appreciation bonds	(2,303,101)
	- accrued interest on bonds payable	(121,644)
	- compensated absences	<u>(33,228)</u>

**Net assets (deficit) of governmental activities** **\$ (4,442,159)**

Concluded

The accompanying notes are an integral part of these basic financial statements.

# PELLSTON PUBLIC SCHOOLS

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	General	1992 Debt Service Fund	Non- Major Funds	Total
<b>Revenues</b>				
Local sources				
Property taxes	\$ 2,214,694	\$ 451,581	\$ 405,940	\$ 3,072,215
Charges for services	23,084	-	128,543	151,627
Interest	11,381	3,404	4,070	18,855
Other	22,233	-	-	22,233
State sources	3,021,633	-	6,230	3,027,863
Federal sources	238,720	-	147,611	386,331
Interdistrict sources	332,183	-	-	332,183
<b>Total revenues</b>	<b>5,863,928</b>	<b>454,985</b>	<b>692,394</b>	<b>7,011,307</b>
<b>Expenditures</b>				
Instruction	3,795,380	-	-	3,795,380
Supporting services	1,971,441	-	-	1,971,441
Food services	-	-	237,157	237,157
Athletics	-	-	145,198	145,198
Capital outlay	-	-	582,421	582,421
Debt service				
Principal	61,902	192,648	155,000	409,550
Interest	20,562	242,802	283,883	547,247
<b>Total expenditures</b>	<b>5,849,285</b>	<b>435,450</b>	<b>1,403,659</b>	<b>7,688,394</b>
<b>Revenues over (under) expenditures</b>	<b>14,643</b>	<b>19,535</b>	<b>(711,265)</b>	<b>(677,087)</b>
<b>Other financing sources (uses)</b>				
Loan proceeds	54,110	-	-	54,110
Bond proceeds	-	-	575,000	575,000
Transfers in	-	-	124,577	124,577
Transfers out	(113,709)	-	(10,868)	(124,577)
<b>Total other financing sources (uses)</b>	<b>(59,599)</b>	<b>-</b>	<b>688,709</b>	<b>629,110</b>
<b>Changes in fund balances</b>	<b>(44,956)</b>	<b>19,535</b>	<b>(22,556)</b>	<b>(47,977)</b>
Fund balances, beginning of year	353,744	145,708	363,133	862,585
<b>Fund balances, end of year</b>	<b>\$ 308,788</b>	<b>\$ 165,243</b>	<b>\$ 340,577</b>	<b>\$ 814,608</b>

Continued...

# PELLSTON PUBLIC SCHOOLS

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

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### Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities

Net change in fund balances - total governmental funds	\$ (47,977)
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Amounts reported for *governmental activities* in the statement of activities is different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add	- capital outlay	620,819
Deduct	- depreciation expense	(617,039)
	- various miscellaneous transactions involving capital assets	(2,000)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add	- principal payments on long-term liabilities	437,550
Deduct	- increase in long-term debt	(629,110)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct	- increase in accrued interest payable on bonds	(6,530)
Deduct	- increase in interest accretion on capital appreciation bonds	(265,272)
Deduct	- increase in the accrual for compensated absences	(5,532)

Change in net assets of governmental activities	<u><u>\$ (515,091)</u></u>
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Concluded

The accompanying notes are an integral part of these basic financial statements.

# PELLSTON PUBLIC SCHOOLS

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2005

	Budget			Variance - Positive (Negative) Amended to Actual
	Original	Amended	Actual	Actual
<b>Revenues</b>				
Local sources	\$ 2,298,178	\$ 2,311,648	\$ 2,271,392	\$ (40,256)
State sources	3,040,072	3,039,180	3,021,633	(17,547)
Federal sources	252,982	249,186	238,720	(10,466)
Interdistrict sources	233,136	325,528	332,183	6,655
<b>Total revenues</b>	<b>5,824,368</b>	<b>5,925,542</b>	<b>5,863,928</b>	<b>(61,614)</b>
<b>Expenditures</b>				
Education				
Instruction	3,814,202	3,775,120	3,795,380	(20,260)
Support services	1,865,736	1,966,259	1,971,441	(5,182)
Debt service				
Principal payments	62,930	61,461	61,902	(441)
Interest and paying agent fees	32,500	39,317	20,562	18,755
<b>Total expenditures</b>	<b>5,775,368</b>	<b>5,842,157</b>	<b>5,849,285</b>	<b>(7,128)</b>
<b>Revenues over (under) expenditures</b>	<b>49,000</b>	<b>83,385</b>	<b>14,643</b>	<b>(68,742)</b>
<b>Other financing sources (uses)</b>				
Loan proceeds	55,000	54,110	54,110	-
Transfers out	(104,000)	(104,000)	(113,709)	(9,709)
<b>Total other financing sources (uses)</b>	<b>(49,000)</b>	<b>(49,890)</b>	<b>(59,599)</b>	<b>(9,709)</b>
<b>Changes in fund balance</b>	<b>-</b>	<b>33,495</b>	<b>(44,956)</b>	<b>(78,451)</b>
Fund balance, beginning of year	353,744	353,744	353,744	-
<b>Fund balance, end of year</b>	<b>\$ 353,744</b>	<b>\$ 387,239</b>	<b>\$ 308,788</b>	<b>\$ (78,451)</b>

The accompanying notes are an integral part of these basic financial statements.

**PELLSTON PUBLIC SCHOOLS**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**AGENCY FUND**

**JUNE 30, 2005**

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**Assets**

Cash and cash equivalents	\$ 69,814
Investments	<u>20,022</u>

<b>Total assets</b>	<b><u>\$ 89,836</u></b>
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**Liabilities**

Scholarships payable	\$ 26,679
Due to others	27,003
Due to student groups	<u>36,154</u>

<b>Total liabilities</b>	<b><u>\$ 89,836</u></b>
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The accompanying notes are an integral part of these basic financial statements.

## **NOTES TO THE FINANCIAL STATEMENTS**



**PELLSTON PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting entity**

Pellston Public Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

**B. District-wide and fund financial statements**

The District-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the 2005 fiscal year.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. Measurement focus, basis of accounting, and financial statement presentation**

The District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds also use the accrual basis of accounting, but do not have a measurement focus.

**PELLSTON PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**

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Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for reimbursement type grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *1992 Debt Service Fund* accounts for assets accumulated to repay the 1992 General Obligation Capital Appreciation Bonds.

Additionally, the District reports the following fund types:

The *Special Revenue Funds* account for the various food service and athletic programs sponsored by the District.

The *Debt Service Funds* account for the principal and interest payments on the bonds used to finance various construction projects in the District.

The *Capital Project Funds* account for various construction projects within the District.

The *Agency Fund* accounts for assets held for other groups and organizations and is custodial in nature.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the District-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

**PELLSTON PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**

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When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided and 2) operating grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

The effect of interfund activity has been eliminated from the District-wide financial statements.

**D. Assets, liabilities and equity**

**1. *Deposits***

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**2. *Receivables and payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). There were no interfund advances outstanding at June 30, 2005.

**3. *Capital assets***

Capital assets, which include property and equipment, are reported in the District-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

**PELLSTON PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**

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Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-50
Land improvements	20
Equipment	5-20
Vehicles	7-10

**4. *Compensated absences***

District policy permits certain employees to accumulate earned but unused sick pay benefits which are paid when the employee separates from service with the District. A liability is recorded in the statement of net assets for such amounts. No liability is recorded for accumulated vacation since hours earned do not vest.

**5. *Long-term obligations***

In the District-wide financial statements, long-term obligations are reported as liabilities in the statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**6. *Fund equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**PELLSTON PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary information**

The General and Special Revenue Funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

**B. Excess of expenditures over appropriations**

Expenditures in excess of budgeted amounts at the legal level of control are disclosed in the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits**

A reconciliation of cash and cash equivalents as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

**Statement of Net Assets**

Cash and cash equivalents	\$ 888,709
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**Statement of Fiduciary Net Assets**

Agency Fund

Cash and cash equivalents	69,814
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Investments	<u>20,022</u>
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**\$ 978,545**

The above balance is classified totally as deposits for disclosure purposes.

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial risk. As of June 30, 2005, \$1,077,320 of the District's bank balance of \$1,199,800 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**PELLSTON PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**

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The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Michigan law authorizes the District to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a state or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this state.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district

**B. Receivables**

Receivables in the governmental activities totaling \$769,728 are made up of \$624,415 in due from other governmental units and \$145,313 in taxes receivable. All receivables, except for the amount due for the Durant bonds of \$27,880, are expected to be collected within the next fiscal year.

**PELLSTON PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**C. Capital assets**

Capital assets activity was as follows for the year ended June 30, 2005:

	<b><u>Balance July 1, 2004</u></b>	<b><u>Additions</u></b>	<b><u>Disposals</u></b>	<b><u>Balance June 30, 2005</u></b>
<b>Capital assets not being depreciated</b>				
Land	\$ 35,000	\$ -	\$ -	\$ 35,000
<b>Capital assets being depreciated</b>				
Buildings and improvements	10,815,000	564,709	-	11,379,709
Land improvements	75,000	-	-	75,000
Equipment	965,631	-	-	965,631
Vehicles	<u>625,865</u>	<u>56,110</u>	<u>(40,623)</u>	<u>641,352</u>
<b>Subtotal</b>	<b><u>12,481,496</u></b>	<b><u>620,819</u></b>	<b><u>(40,623)</u></b>	<b><u>13,061,692</u></b>
<b>Accumulated depreciation</b>				
Buildings and improvements	(4,987,540)	(504,976)	-	(5,492,516)
Land improvements	(29,000)	(3,750)	-	(32,750)
Equipment	(544,977)	(57,867)	-	(602,844)
Vehicles	<u>(380,914)</u>	<u>(50,446)</u>	<u>38,623</u>	<u>(392,737)</u>
<b>Total accumulated depreciation</b>	<b><u>(5,942,431)</u></b>	<b><u>(617,039)</u></b>	<b><u>38,623</u></b>	<b><u>(6,520,847)</u></b>
<b>Total capital assets being depreciated, net</b>	<b><u>6,539,065</u></b>	<b><u>3,780</u></b>	<b><u>(2,000)</u></b>	<b><u>6,540,845</u></b>
<b>Capital assets, net</b>	<b><u>\$6,574,065</u></b>	<b><u>\$ 3,780</u></b>	<b><u>\$ (2,000)</u></b>	<b><u>\$6,575,845</u></b>

Depreciation expense was charged to functions/programs of the District as follows:

**Governmental activities**

Athletics	\$ 10,856
Unallocated	<u>606,183</u>

**Total depreciation expense – governmental activities** **\$ 617,039**

**PELLSTON PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**D. Accounts payable and accrued expenses**

Payables are comprised of the following:

Accounts payable	\$ 63,419
Salaries payable	390,086
Accrued expenses	281,088
Due to other governmental units	<u>11,917</u>
<b>Total accounts payable and accrued expenses</b>	<b><u>\$ 746,510</u></b>

**E. Interfund receivables, payables and transfers**

The following balances represent individual fund interfund receivables and payables at June 30, 2005:

	<b><u>Interfund Receivables</u></b>	<b><u>Interfund Payables</u></b>
General Fund	\$ -	\$ 21,467
1992 Debt Service Fund	-	71,407
Nonmajor Funds	<u>92,874</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 92,874</u></b>	<b><u>\$ 92,874</u></b>

The District reports interfund balances between certain funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the balance sheet for governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made.

For the year ended June 30, 2005, interfund transfers consisted of subsidy transfers from the General Fund to the nonmajor Athletic Fund and Energy Bonds Debt Service Fund of \$104,942 and \$8,767, respectively. The Energy Conservation Capital Project Fund made a transfer to the Energy Conservation Debt Service Fund for \$10,868.



**PELLSTON PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**F. Long-term debt**

A summary of long-term debt and transactions related thereto is as follows for the year ended June 30, 2005:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
2002 School Building and Site Construction Bonds, due through May 2016 in semi-annual installments of interest and annual principal payments varying from \$120,000 - \$240,000 bearing interest rates ranging from 4.25% to 4.375%.	\$ 2,405,000	\$ -	\$ (120,000)	\$ 2,285,000	\$ 145,000
1998 General Obligation Refunding Bonds, due through May 2012 in semi-annual installments of interest and annual principal payments varying from \$35,000 - \$800,000 with interest rates ranging from 4.30% to 4.75%.	3,510,000	-	(35,000)	3,475,000	35,000
1993 General Obligation Refunding Bonds, due from May 2013 through May 2022 in annual installments of interest and annual principal payments varying from \$189,900 - \$284,638 with interest rates ranging from 5.70% to 5.90%.	2,437,230	-	-	2,437,230	-

**PELLSTON PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**

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	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
1992 General Obligation Capital Appreciation Bonds, due through May 2007 in semi-annual installments of interest and annual principal payments varying from \$186,445 - \$192,648 with interest rates ranging from 6.65% to 6.80%.	\$ 567,449	\$ -	\$ (192,648)	\$ 374,800	\$ 188,356
2004 Energy Conservation Improvement Bonds due through May 2015 in semi-annual installments of interest and principal payments varying from \$45,000 through \$70,000 with an interest rate of 4.21%	-	575,000	-	575,000	45,000
Durant Settlement Bonds, due through May 2013 in annual installments of \$3,064 including interest charged at 4.76%.	27,880	-	-	27,880	2,112
Various bus notes payable, due from July 15, 2005 through September 22, 2009 in annual installments of interest and principal installments aggregating from \$10,822 through \$61,902 with interest rates ranging from 2.87% to 5.14%.	179,400	54,110	(61,902)	171,609	62,834

**PELLSTON PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Early retirement payable.	\$ 84,000	\$ -	\$ (28,000)	\$ 56,000	\$ 28,000
Interest accretion on the 1993 capital appreciation bonds.	2,037,829	265,272	-	2,303,101	-
Compensated absences.	<u>27,696</u>	<u>5,532</u>	<u>-</u>	<u>33,228</u>	<u>-</u>
<b>Total long-term debt</b>	<b><u>\$ 11,276,484</u></b>	<b><u>\$ 899,914</u></b>	<b><u>\$ (437,550)</u></b>	<b><u>\$11,738,848</u></b>	<b><u>\$ 506,302</u></b>

The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service. During the year ended June 30, 2003, the State postponed all Durant debt service requirements. No debt service is required for May 15, 2004, or 2005. The debt service payments will resume in 2006.

**Debt service requirements**

Annual debt service requirements to maturity for the above obligations except for the compensated absences are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 506,302	\$ 559,581	\$ 1,065,883
2007	517,927	582,921	1,100,848
2008	829,831	263,626	1,093,457
2009	889,481	227,558	1,117,039
2010	948,366	188,499	1,136,865
2011-2015	3,868,881	2,204,247	6,073,128
2016-2020	1,450,538	3,800,408	5,250,946
2021-2022	<u>391,193</u>	<u>1,609,985</u>	<u>2,001,178</u>
<b>Total</b>	<b><u>\$ 9,402,519</u></b>	<b><u>\$ 9,436,825</u></b>	<b><u>\$ 18,839,344</u></b>

During the year ended June 30, 2005, the District borrowed \$1,400,000 on a short term State Aid note.

The final payment of \$191,083 is recorded as a liability in the General Fund. This note carries an interest rate of 1.55% and is due July 21, 2005.

**PELLSTON PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**IV. OTHER INFORMATION**

**A. Risk management**

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

**B. Property taxes**

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of July 1 of the following year. Taxes are levied on July 1 by the municipalities within the District, and are due on February 14. Delinquent real taxes are advanced to the District by the revolving tax fund of the applicable county.

**C. Defined benefit pension plan**

**Plan Description**

The District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

**PELLSTON PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**Funding Policy**

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 14.87% of annual covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPSERS for the years ended June 30, 2005, 2004 and 2003 were approximately \$496,000, \$429,000, and \$438,000, respectively, equal to the required contributions for each year.

**Other Post-employment Benefits**

Retirees have the option of health coverage which is funded on a cash disbursement basis by the District. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid master health plan coverage and 90% paid dental plan, vision plan and hearing plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

**PELLSTON PUBLIC SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**D. Commitments and contingencies**

Under the terms of various federal and state grants and regulatory requirements, periodic audits are required and certain cost may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the district.

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2005.

\* \* \* \* \*

## **SUPPLEMENTARY INFORMATION**

**PELLSTON PUBLIC SCHOOLS**

**COMBINING BALANCE SHEET**

**NONMAJOR GOVERNMENTAL FUNDS**

**JUNE 30, 2005**

	<b>Special Revenue Funds</b>		<b>Debt Service Funds</b>		
	<b>Food Service</b>	<b>Athletics</b>	<b>1998 Debt</b>	<b>2002 Debt</b>	<b>Energy Bonds</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 20,081	\$ 5,087	\$ 87,497	\$ 117,740	\$ -
Taxes receivable	-	-	-	13,887	-
Due from other funds	16,158	5,309	71,407	-	-
Due from other governmental units	1,377	-	-	-	-
<b>Total assets</b>	<b>\$ 37,616</b>	<b>\$ 10,396</b>	<b>\$ 158,904</b>	<b>\$ 131,627</b>	<b>\$ -</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Salaries payable	\$ 6,261	\$ 1,749	\$ -	\$ -	\$ -
Accrued expenses	1,207	134	-	-	-
Deferred revenue	-	-	-	-	-
<b>Total liabilities</b>	<b>7,468</b>	<b>1,883</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund balances</b>					
Reserved for debt service	-	-	158,904	131,627	-
Reserved for capital projects	-	-	-	-	-
Designated for subsequent year's expenditures	-	2,297	-	-	-
Unreserved, undesignated	30,148	6,216	-	-	-
<b>Total fund balances</b>	<b>30,148</b>	<b>8,513</b>	<b>158,904</b>	<b>131,627</b>	<b>-</b>
<b>Total liabilities and fund balances</b>	<b>\$ 37,616</b>	<b>\$ 10,396</b>	<b>\$ 158,904</b>	<b>\$ 131,627</b>	<b>\$ -</b>



Durant Settlement	Capital Project Funds		Total
	Building Construction	Energy Conservation	
\$ -	\$ 11,385	\$ -	\$ 241,790
-	-	-	13,887
-	-	-	92,874
27,880	-	-	29,257
<b>\$ 27,880</b>	<b>\$ 11,385</b>	<b>\$ -</b>	<b>\$ 377,808</b>

\$ -	\$ -	\$ -	\$ 8,010
-	-	-	1,341
27,880	-	-	27,880
<b>27,880</b>	<b>-</b>	<b>-</b>	<b>37,231</b>
-	-	-	290,531
-	11,385	-	11,385
-	-	-	2,297
-	-	-	36,364
<b>-</b>	<b>11,385</b>	<b>-</b>	<b>340,577</b>
<b>\$ 27,880</b>	<b>\$ 11,385</b>	<b>\$ -</b>	<b>\$ 377,808</b>

# PELLSTON PUBLIC SCHOOLS

## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	Special Revenue Funds		Debt Service Funds		
	Food Service	Athletics	1998 Debt	2002 Debt	Energy Bonds
<b>Revenues</b>					
Local sources					
Property taxes	\$ -	\$ -	\$ 191,135	\$ 214,805	\$ -
Charges for services	90,103	38,440	-	-	-
Interest	240	146	1,235	1,669	-
State sources	6,230	-	-	-	-
Federal sources	147,611	-	-	-	-
<b>Total revenues</b>	<b>244,184</b>	<b>38,586</b>	<b>192,370</b>	<b>216,474</b>	<b>-</b>
<b>Expenditures</b>					
Food services	237,157	-	-	-	-
Athletics	-	145,198	-	-	-
Capital outlay	8,144	4,008	-	-	-
Debt service					
Principal	-	-	35,000	120,000	-
Interest and fees	-	-	161,735	102,513	19,635
<b>Total expenditures</b>	<b>245,301</b>	<b>149,206</b>	<b>196,735</b>	<b>222,513</b>	<b>19,635</b>
<b>Revenues over (under) expenditures</b>	<b>(1,117)</b>	<b>(110,620)</b>	<b>(4,365)</b>	<b>(6,039)</b>	<b>(19,635)</b>
<b>Other financing sources (uses)</b>					
Bond proceeds	-	-	-	-	-
Transfers in	-	104,942	-	-	19,635
Transfers out	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>104,942</b>	<b>-</b>	<b>-</b>	<b>19,635</b>
<b>Changes in fund balances</b>	<b>(1,117)</b>	<b>(5,678)</b>	<b>(4,365)</b>	<b>(6,039)</b>	<b>-</b>
Fund balances, beginning of year	31,265	14,191	163,269	137,666	-
<b>Fund balances, end of year</b>	<b>\$ 30,148</b>	<b>\$ 8,513</b>	<b>\$ 158,904</b>	<b>\$ 131,627</b>	<b>\$ -</b>

<b>Durant Settlement</b>	<b>Capital Project Funds</b>		<b>Total</b>
	<b>Building Construction</b>	<b>Energy Conservation</b>	
\$ -	\$ -	\$ -	\$ 405,940
-	-	-	128,543
-	203	577	4,070
-	-	-	6,230
-	-	-	147,611
-	<b>203</b>	<b>577</b>	<b>692,394</b>
-	-	-	237,157
-	-	-	145,198
-	5,560	564,709	582,421
-	-	-	155,000
-	-	-	283,883
-	<b>5,560</b>	<b>564,709</b>	<b>1,403,659</b>
-	<b>(5,357)</b>	<b>(564,132)</b>	<b>(711,265)</b>
-	-	575,000	575,000
-	-	-	124,577
-	-	(10,868)	(10,868)
-	-	<b>564,132</b>	<b>688,709</b>
-	<b>(5,357)</b>	-	<b>(22,556)</b>
-	16,742	-	363,133
<b>\$ -</b>	<b>\$ 11,385</b>	<b>\$ -</b>	<b>\$ 340,577</b>

**PELLSTON PUBLIC SCHOOLS**

**BALANCE SHEET  
GENERAL FUND**

**JUNE 30, 2005  
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2004)**

	<b>2005</b>	<b>2004</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 451,930	\$ 1,637,795
Taxes receivable	89,765	-
Due from other governmental units	595,158	650,779
<b>Total assets</b>	<b>\$ 1,136,853</b>	<b>\$ 2,288,574</b>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ 63,419	\$ 45,048
Salaries payable	382,076	393,466
Accrued expenses	158,103	146,334
Due to other funds	21,467	22,165
Due to other governmental units	11,917	107,423
Deferred revenue	-	9,762
State aid note	191,083	1,210,632
<b>Total liabilities</b>	<b>828,065</b>	<b>1,934,830</b>
<b>Fund balance</b>		
Unreserved		
Undesignated	308,788	353,744
<b>Total liabilities and fund balance</b>	<b>\$ 1,136,853</b>	<b>\$ 2,288,574</b>

**PELLSTON PUBLIC SCHOOLS**  
**SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES**  
**GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2005**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2004)**

	<u>2005</u>	<u>2004</u>
<b>Revenues</b>		
<b>Local sources</b>		
Property taxes	\$ 2,214,694	\$ 2,025,661
Charge for services	23,084	19,193
Interest	11,381	8,885
Other local revenue	<u>22,233</u>	<u>19,462</u>
<b>Total local sources</b>	<u><b>2,271,392</b></u>	<u><b>2,073,201</b></u>
<b>State sources</b>		
State aid	3,007,136	3,209,506
Other state revenue	<u>14,497</u>	<u>18,709</u>
<b>Total state sources</b>	<u><b>3,021,633</b></u>	<u><b>3,228,215</b></u>
<b>Federal sources</b>		
Title I	158,093	145,841
Title II	56,920	42,905
Title V	4,704	13,531
Title IX	17,225	16,537
Other	<u>1,778</u>	<u>3,926</u>
<b>Total federal sources</b>	<u><b>238,720</b></u>	<u><b>222,740</b></u>
<b>Interdistrict sources</b>	<u><b>332,183</b></u>	<u><b>293,081</b></u>
<b>Other financing sources</b>		
Loan proceeds	<u><b>54,110</b></u>	<u><b>53,102</b></u>
<b>Total revenues and other financing sources</b>	<u><u><b>\$ 5,918,038</b></u></u>	<u><u><b>\$ 5,870,339</b></u></u>

# PELLSTON PUBLIC SCHOOLS

## SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2005  
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2004)

	2005	2004
<b>Expenditures</b>		
<b>Instruction</b>		
<b>Basic programs</b>		
<b>Elementary</b>		
Salaries	\$ 930,695	\$ 876,783
Employee benefits	419,034	361,510
Purchased services	2,305	3,196
Supplies, materials and other expense	17,378	24,946
<b>Total elementary</b>	<b>1,369,412</b>	<b>1,266,435</b>
<b>Middle school</b>		
Salaries	365,418	432,391
Employee benefits	170,330	191,451
Purchased services	488	923
Supplies, materials and other expense	9,861	19,546
<b>Total middle school</b>	<b>546,097</b>	<b>644,311</b>
<b>High school</b>		
Salaries	661,194	604,844
Employee benefits	299,077	255,624
Purchased services	66,240	65,689
Supplies, materials and other expense	24,270	22,635
<b>Total high school</b>	<b>1,050,781</b>	<b>948,792</b>
<b>Total basic programs</b>	<b>2,966,290</b>	<b>2,859,538</b>
<b>Added needs</b>		
<b>Special education</b>		
Salaries	339,671	324,775
Employee benefits	171,883	148,083
Purchased services	162	668
Supplies, materials and other expense	2,285	4,795
<b>Total special education</b>	<b>514,001</b>	<b>478,321</b>
<b>Compensatory education</b>		
Salaries	152,675	171,520
Employee benefits	68,079	69,605
Purchased services	973	-
Supplies, materials and other expense	3,412	9,537
<b>Total compensatory education</b>	<b>225,139</b>	<b>250,662</b>

Continued...

# PELLSTON PUBLIC SCHOOLS

## SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2005  
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2004)

	2005	2004
<b>Vocational education</b>		
Salaries	\$ 44,863	\$ 42,474
Employee benefits	24,357	21,400
Supplies, materials and other expense	160	3,058
Capital outlay	20,570	20,623
<b>Total vocational education</b>	<b>89,950</b>	<b>87,555</b>
<b>Total added needs</b>	<b>829,090</b>	<b>816,538</b>
<b>Total instruction</b>	<b>3,795,380</b>	<b>3,676,076</b>
<b>Supporting services</b>		
<b>Pupil services</b>		
<b>Guidance services</b>		
Salaries	112,005	110,309
Employee benefits	47,355	44,202
Purchased services	605	-
Supplies, materials and other expense	-	53
<b>Total pupil services</b>	<b>159,965</b>	<b>154,564</b>
<b>Instructional staff services</b>		
<b>Improvement of instruction</b>		
Salaries	6,300	6,050
Employee benefits	13,419	9,762
Purchased services	14,508	17,878
Supplies, materials and other expense	-	120
<b>Total improvement of instruction</b>	<b>34,227</b>	<b>33,810</b>
<b>Library</b>		
Salaries	15,964	46,186
Employee benefits	7,741	19,391
Purchased services	199	-
Supplies, materials and other expense	1,490	6,877
<b>Total library</b>	<b>25,394</b>	<b>72,454</b>
<b>Supervision of instructional staff</b>		
Salaries	41,948	37,050
Employee benefits	11,037	10,076
<b>Total supervision of instructional staff</b>	<b>52,985</b>	<b>47,126</b>

Continued...

# PELLSTON PUBLIC SCHOOLS

## SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2005  
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2004)

	2005	2004
<b>Technology assisted instruction</b>		
Purchased services	\$ -	\$ 300
Supplies, materials and other expense	-	19,316
<b>Total technology assisted instruction</b>	<b>-</b>	<b>19,616</b>
<b>Total instructional staff services</b>	<b>112,606</b>	<b>173,006</b>
<b>General administration</b>		
<b>Board of education</b>		
Salaries	8,339	8,985
Benefits	154	43
Purchased services	15,975	25,684
Supplies, materials and other expense	9,491	8,550
<b>Total board of education</b>	<b>33,959</b>	<b>43,262</b>
<b>Executive administration</b>		
Salaries	120,544	118,413
Employee benefits	48,883	45,767
Purchased services	15,634	13,260
Supplies, materials and other expense	8,494	8,674
<b>Total executive administration</b>	<b>193,555</b>	<b>186,114</b>
<b>Total general administration</b>	<b>227,514</b>	<b>229,376</b>
<b>School administration</b>		
<b>Office of the principal</b>		
Salaries	303,619	299,067
Employee benefits	123,013	115,842
Purchased services	31,304	30,772
Supplies, materials and other expense	7,271	8,993
<b>Total school administration</b>	<b>465,207</b>	<b>454,674</b>
<b>Business services</b>		
<b>Fiscal services</b>		
Purchased services	104,276	97,761
Supplies, materials and other expense	1,243	1,468
<b>Total business services</b>	<b>105,519</b>	<b>99,229</b>

Continued...



**PELLSTON PUBLIC SCHOOLS**

**SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2005  
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2004)**

	<u>2005</u>	<u>2004</u>
<b>Transportation</b>		
Salaries	\$ 150,443	\$ 161,422
Employee benefits	42,508	42,356
Purchased services	21,490	18,216
Supplies, materials and other expense	58,546	35,108
Capital outlay	56,110	53,102
<b>Total transportation</b>	<u><b>329,097</b></u>	<u><b>310,204</b></u>
<b>Operation and maintenance</b>		
Salaries	118,167	124,428
Employee benefits	65,074	48,910
Purchased services	194,796	163,689
Supplies, materials and other expense	193,496	250,005
<b>Total operation and maintenance</b>	<u><b>571,533</b></u>	<u><b>587,032</b></u>
<b>Total support services</b>	<u><b>1,971,441</b></u>	<u><b>2,008,085</b></u>
<b>Total operating expenditures</b>	<u><b>5,766,821</b></u>	<u><b>5,684,161</b></u>
<b>Debt service</b>		
Principal	61,902	49,626
Interest and fiscal charges	20,562	23,628
<b>Total debt service</b>	<u><b>82,464</b></u>	<u><b>73,254</b></u>
<b>Total expenditures</b>	<u><b>5,849,285</b></u>	<u><b>5,757,415</b></u>
<b>Other financing uses</b>		
Transfers out	<u><b>113,709</b></u>	<u><b>104,387</b></u>
<b>Total expenditures and other financing uses</b>	<u><u><b>\$ 5,962,994</b></u></u>	<u><u><b>\$ 5,861,802</b></u></u>
		Concluded

# PELLSTON PUBLIC SCHOOLS

## STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUND

FOR THE YEAR ENDED JUNE 30, 2005

	Balances July 1, 2004	Receipts	Disbursements	Balances June 30, 2005
<b>ASSETS</b>				
Cash and cash equivalents	\$ 74,111	\$ 143,368	\$ 147,665	\$ 69,814
Investments	19,573	449	-	20,022
<b>Total assets</b>	<b>\$ 93,684</b>	<b>\$ 143,817</b>	<b>\$ 147,665</b>	<b>\$ 89,836</b>
<b>LIABILITIES</b>				
Scholarships payable	\$ 30,803	\$ 3,449	\$ 7,573	\$ 26,679
Due to others	25,727	60,998	59,722	27,003
Due to student groups	37,154	79,370	80,370	36,154
<b>Total liabilities</b>	<b>\$ 93,684</b>	<b>143,817</b>	<b>\$ 147,665</b>	<b>\$ 89,836</b>
The balances consist of the following:				
Cadwell Scholarship	\$ 1,060	\$ -	\$ 1,000	\$ 60
Cadwell Scholarship CD	19,573	449	-	20,022
Hayes Scholarship	1,441	3,000	3,000	1,441
Johnson Scholarship	3,000	-	-	3,000
Mini grants	836	-	-	836
PEA Scholarship	376	-	300	76
Walsh Scholarship	4,517	-	3,273	1,244
<b>Total scholarships payable</b>	<b>\$ 30,803</b>	<b>\$ 3,449</b>	<b>\$ 7,573</b>	<b>\$ 26,679</b>
Academic boosters	\$ 625	\$ 956	\$ 1,559	\$ 22
Athletic - general	1,110	615	966	759
Band boosters	318	1,631	1,479	470
Beverage concessions	8,941	10,564	9,903	9,602
Casual wear	664	309	40	933
Christmas/needly	508	3,055	3,000	563
Elementary social fund	304	200	379	125
Elementary teacher's pop	752	1,484	1,326	910
Field trip transportation	-	1,000	675	325
Interest	3,716	6,312	6,830	3,198
McClutchey Field Improvement	-	1,110	126	984
Office concessions	94	145	137	102
Principal - elementary	252	946	935	263
Principal - high school	1,040	1,909	1,524	1,425
Principal - middle school	164	1,579	1,690	53
Reading is fundamental/book fair	2,360	6,749	6,972	2,137
Sports boosters	2,265	21,568	21,013	2,820
Safety Sam	1,751	-	147	1,604
Spitzi counseling	16	-	-	16
Support staff social fund	170	-	170	-
Weitzel - track	355	-	-	355
Woodshop	322	866	851	337
<b>Total due to others</b>	<b>\$ 25,727</b>	<b>\$ 60,998</b>	<b>\$ 59,722</b>	<b>\$ 27,003</b>

# PELLSTON PUBLIC SCHOOLS

## STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUND

FOR THE YEAR ENDED JUNE 30, 2005

	Balances July 1, 2004	Receipts	Disbursements	Balances June 30, 2005
Annual (yearbook)	\$ 2,706	\$ 13,808	\$ 13,317	\$ 3,197
Art department	1,332	890	685	1,537
Boys baseball	2,189	2,024	3,633	580
Cheerleaders - high school	85	1,508	1,486	107
Cheerleaders - middle school	720	-	-	720
Elementary school cash	1,552	2,135	2,325	1,362
Fourth and fifth girls club	183	459	458	184
Girls varsity basketball	429	1,210	1,262	377
Girls varsity softball	676	891	1,399	168
High school drama club	597	1,261	682	1,176
Middle school drama	394	-	294	100
Middle school girls basketball	319	35	199	155
Multi-age elementary bookstore	42	-	42	-
Multicultural - sixth	378	-	-	378
National Honor Society	65	1,202	903	364
Renaissance	-	1,563	1,309	254
SADD	680	404	503	581
Ski club	-	1,569	1,288	281
Spanish club	230	-	-	230
STAND	715	-	37	678
START	1,009	761	768	1,002
Student council - high school	2,538	4,001	4,873	1,666
Student council - middle school	387	2,761	2,442	706
Student flow	2	8,197	8,018	181
Varsity boys basketball	188	947	334	801
Varsity football	1,990	3,779	4,332	1,437
Volleyball	1,698	6,800	8,023	475
Youth enrichment - ski club	82	62	-	144
Kindergarten	1,087	2,146	2,765	468
First grade	129	804	466	467
Second grade	346	453	251	548
Third grade	1,239	469	992	716
Fourth grade	227	1,155	1,029	353
Fifth grade	410	1,975	1,493	892
Class of 2011	-	2,362	1,224	1,138
Class of 2010	776	335	-	1,111
Class of 2009	1,714	1,708	1,009	2,413
Class of 2008	2,605	3,534	2,576	3,563
Class of 2007	3,672	1,217	1,353	3,536
Class of 2006	2,726	6,641	7,643	1,724
Class of 2005	500	304	549	255
Class of 2004	537	-	408	129
<b>Total due to student groups</b>	<b>\$ 37,154</b>	<b>\$ 79,370</b>	<b>\$ 80,370</b>	<b>\$ 36,154</b>

# PELLSTON PUBLIC SCHOOLS

## SCHEDULE OF INDEBTEDNESS

JUNE 30, 2005

	<u>Date of Note</u>	<u>Amount of Note</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Total Outstanding at June 30, 2005</u>	<u>Total Interest Payable</u>
2002 School Building and Site Construction Bonds	2/1/02	\$ 2,600,000	4.250%	11/1/2005	\$ -	\$ 48,706
			4.250%	5/1/2006	145,000	48,706
			4.250%	11/1/2006	-	45,625
			4.250%	5/1/2007	165,000	45,625
			4.250%	11/1/2007	-	42,119
			4.250%	5/1/2008	180,000	42,119
			4.250%	11/1/2008	-	38,294
			4.250%	5/1/2009	190,000	38,294
			4.250%	11/1/2009	-	34,256
			4.250%	5/1/2010	200,000	34,256
			4.250%	11/1/2010	-	30,006
			4.250%	5/1/2011	215,000	30,006
			4.250%	11/1/2011	-	25,438
			4.250%	5/1/2012	235,000	25,438
			4.250%	11/1/2012	-	20,444
			4.250%	5/1/2013	235,000	20,444
			4.250%	11/1/2013	-	15,450
			4.250%	5/1/2014	240,000	15,450
			4.250%	11/1/2014	-	10,350
			4.250%	5/1/2015	240,000	10,350
			4.250%	11/1/2015	-	5,250
			4.375%	5/1/2016	240,000	5,250
					<u><u>\$ 2,285,000</u></u>	<u><u>\$ 631,876</u></u>

Note:

Bonds of this issue maturing in the fiscal years 2005 through 2011, inclusive, shall not be subject to redemption prior to maturity. Bonds or portions of Bonds in multiples of \$5,000 of this issue maturing in the year 2012 and thereafter, shall be subject to redemption prior to maturity, at the option of the Issuer, in such order as the Issuer may determine and by lot within any maturity, on any interest payment date on or after May 1, 2011, at par and accrued interest to the date fixed for redemption.

**PELLSTON PUBLIC SCHOOLS**

**SCHEDULE OF INDEBTEDNESS**

**JUNE 30, 2005**

	<u>Date of Note</u>	<u>Amount of Note</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Total Outstanding at June 30, 2005</u>	<u>Total Interest Payable</u>
1998 General Obligation Refunding Bonds	6/30/98	\$ 3,720,000	4.350%	5/1/2006	\$ 35,000	\$ 159,456
			4.400%	5/1/2007	35,000	157,932
			4.450%	5/1/2008	565,000	156,392
			4.500%	5/1/2009	620,000	131,250
			4.550%	5/1/2010	680,000	103,350
			4.650%	5/1/2011	740,000	72,410
			4.750%	5/1/2012	800,000	38,000
				<u>\$ 3,475,000</u>	<u>\$ 818,790</u>	

Note: The Bonds or portions of the Bonds in multiples of \$5,000 maturing on or after May 1, 2009 are subject to redemption at the option of the District in such order as the District may determine by lot within any maturity, on any interest payment date occurring on or after May 1, 2008, at par plus accrued interest to the date fixed for redemption.

# PELLSTON PUBLIC SCHOOLS

## SCHEDULE OF INDEBTEDNESS

JUNE 30, 2005

	<u>Date of Note</u>	<u>Amount of Note</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Total Outstanding at June 30, 2005</u>	<u>Total Interest Payable</u>
1993 General Obligation Refunding Bonds	10/6/93	\$ 2,437,230	5.70%	5/1/2013	\$ 284,638	\$ 570,362
			5.70%	5/1/2014	281,674	613,326
			5.85%	5/1/2015	269,186	664,493
			5.85%	5/1/2016	265,548	710,184
			5.85%	5/1/2017	260,699	754,069
			5.85%	5/1/2018	243,723	761,277
			5.90%	5/1/2019	227,880	780,029
			5.90%	5/1/2020	212,688	784,349
			5.90%	5/1/2021	201,294	798,829
			5.90%	5/1/2022	189,900	810,100
				<u>\$ 2,437,230</u>	<u>\$ 7,247,018</u>	

Note: Bonds of this issue maturing on or after May 1, 2009 are subject to redemption prior to maturity at the option of the Issuer in multiples of \$5,000 in such order as the Issuer may determine, by lot within any maturity, on any May 1, and November 1 occurring on or after May 1, 2008, at the redemption prices (expressed as percentages of the Appreciated Amount on the date of redemption) set forth in the following table:

<u>Redemption Period</u>	<u>Redemption Price</u>
May 1, 2008 through April 30, 2009	103.0%
May 1, 2009 through April 30, 2010	102.0%
May 1, 2010 through April 30, 2011	101.0%
May 1, 2011 and thereafter	100.0%

### Mandatory Redemption

The Bonds maturing on May 1, 2018 are term bonds subject to mandatory redemption, in part by lot on the redemption dates and at a redemption price equal to the appreciated amount thereof, without premium, as set forth below:

<u>Redemption Date</u>	<u>Appreciated Amount</u>
May 1, 2015	\$ 933,679
May 1, 2016	\$ 975,733
May 1, 2017	\$ 1,014,768
May 1, 2018 (maturity)	\$ 1,005,000

The Bonds maturing on May 1, 2022 are term bonds subject to mandatory redemption, in part by lot on the redemption dates and at a redemption price equal to the appreciated amount thereof, without premium, as set forth below:

<u>Redemption Date</u>	<u>Appreciated Amount</u>
May 1, 2019	\$ 1,007,909
May 1, 2020	\$ 977,037
May 1, 2021	\$ 1,000,123
May 1, 2022 (maturity)	\$ 1,000,000

# PELLSTON PUBLIC SCHOOLS

## SCHEDULE OF INDEBTEDNESS

JUNE 30, 2005

	<u>Date of Note</u>	<u>Amount of Note</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Total Outstanding at June 30, 2005</u>	<u>Total Interest Payable</u>
1992 General Obligation	11/19/92	\$ 2,894,928	6.65%	5/1/2006	\$ 188,356	\$ 271,644
Capital Appreciation Bonds			6.80%	5/1/2007	186,444	303,555
					<u>\$ 374,800</u>	<u>\$ 575,199</u>

Note: Bonds of this issue maturing on or after May 1, 2003 are subject to redemption prior to maturity at the option of the Issuer in multiples of \$5,000 in such order as the Issuer may determine, by lot within any maturity, on any May 1, and November 1 occurring on or after May 1, 2007, at the redemption prices set forth in the following table:

<u>Redemption Period</u>	<u>Redemption Price</u>
May 1, 2007 through April 30, 2008	103.0%
May 1, 2008 through April 30, 2009	102.0%
May 1, 2009 through April 30, 2010	101.0%
May 1, 2010 and thereafter	100.0%

# PELLSTON PUBLIC SCHOOLS

## SCHEDULE OF INDEBTEDNESS

JUNE 30, 2005

	Date of Note	Amount of Note	Interest Rate	Date of Maturity	Total Outstanding at June 30, 2005	Total Interest Payable
2004 Energy Conservation Improvement Bonds	7/9/2004	\$ 575,000	4.21%	11/1/2005	\$ -	\$ 12,104
			4.21%	5/1/2006	45,000	12,104
			4.21%	11/1/2006	-	11,157
			4.21%	5/1/2007	50,000	11,157
			4.21%	11/1/2007	-	10,104
			4.21%	5/1/2008	50,000	10,104
			4.21%	11/1/2008	-	9,052
			4.21%	5/1/2009	55,000	9,052
			4.21%	11/1/2009	-	7,894
			4.21%	5/1/2010	55,000	7,894
			4.21%	11/1/2010	-	6,736
			4.21%	5/1/2011	60,000	6,736
			4.21%	11/1/2011	-	5,473
			4.21%	5/1/2012	60,000	5,473
			4.21%	11/1/2012	-	4,210
			4.21%	5/1/2013	65,000	4,210
			4.21%	11/1/2013	-	2,842
			4.21%	5/1/2014	65,000	2,842
			4.21%	11/1/2014	-	1,474
			4.21%	5/1/2015	70,000	1,474
					<b>\$ 575,000</b>	<b>\$ 142,092</b>

Note: This Bond is not subject to redemption prior to maturity by the District.



**PELLSTON PUBLIC SCHOOLS**

**SCHEDULE OF INDEBTEDNESS**

**JUNE 30, 2005**

	<u>Date of Note</u>	<u>Amount of Note</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Total Outstanding at June 30, 2005</u>	<u>Total Interest Payable</u>
Durant Settlement Bonds	11/24/98	\$ 43,640	4.76%	5/1/2006	\$ 2,112	\$ 952
			4.76%	5/1/2007	10,094	4,367
			4.76%	5/1/2008	2,318	747
			4.76%	5/1/2009	2,429	636
			4.76%	5/1/2010	2,544	520
			4.76%	5/1/2011	2,666	399
			4.76%	5/1/2012	2,792	272
			4.76%	5/1/2013	2,925	139
					<u>\$ 27,880</u>	<u>\$ 8,032</u>

Note: This Bond is not subject to redemption prior to maturity by the District.

# PELLSTON PUBLIC SCHOOLS

## SCHEDULE OF INDEBTEDNESS

JUNE 30, 2005

	<u>Date of Note</u>	<u>Amount of Note</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Total Outstanding at June 30, 2005</u>	<u>Total Interest Payable</u>
<b>Bus notes payable</b>						
2004 bus note payable	10/8/2004	\$ 54,110	3.04%	9/22/2005	\$ 10,822	\$ 1,572
			3.04%	9/22/2005	10,822	1,316
			3.04%	9/22/2005	10,822	987
			3.04%	9/22/2005	10,822	658
			3.04%	9/22/2005	10,822	329
					<u>54,110</u>	<u>4,862</u>
2003 bus note payable	8/19/2003	53,102	2.87%	8/19/2005	10,316	1,236
			2.87%	8/19/2006	10,612	940
			2.87%	8/19/2007	10,916	636
			2.87%	8/19/2008	11,230	322
					<u>43,074</u>	<u>3,134</u>
2002 bus note payable	7/16/2002	50,000	3.88%	7/16/2005	9,986	1,208
			3.88%	7/16/2006	10,373	821
			3.88%	7/16/2007	10,775	418
					<u>31,134</u>	<u>2,447</u>
2001 bus note payable	8/30/2001	53,936	3.68%	8/30/2005	11,170	837
			3.68%	8/30/2006	11,581	426
					<u>22,751</u>	<u>1,263</u>
2000 bus note payable	7/26/2000	102,700	5.14%	7/15/2005	<u>20,540</u>	<u>2,112</u>
<b>Total bus notes payable</b>					<u><u>\$ 171,609</u></u>	<u><u>\$ 13,818</u></u>



**INDEPENDENT AUDITORS' REPORT ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

July 28, 2005

Board of Education  
Pellston Public Schools  
Pellston, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of *Pellston Public Schools* as of and for the year ended June 30, 2005, and have issued our report thereon dated July 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance and other matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and the Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

July 28, 2005

Superintendent and Members of  
the Board of Education  
Pellston Public Schools  
Pellston, MI

Through our role in performing financial statement services for the past three years, we have become familiar with your systems, operations and management team. As we work with our clients, we strive to provide direction and constructive feedback to help facilitate their success. The better we get to know you and your objectives, the more we can offer in terms of proactive advice.

In planning and performing our audit of the financial statements of ***Pellston Public Schools*** for the year ended June 30, 2005, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during the above-mentioned engagement, we became aware of certain informational matters. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated July 28, 2005 on the financial statements of ***Pellston Public Schools***.

We have already discussed these comments with the Superintendent, and we would be pleased to discuss them in further detail at your convenience.

If we can be of assistance, we hope you will view us as an integral part of your team.

Best wishes for a successful 2005-2006.

Encl.1

**PELLSTON PUBLIC SCHOOLS**  
**COMMENTS AND RECOMMENDATIONS**  
**JUNE 30, 2005**

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**NO CHILD LEFT BEHIND – REQUIREMENT REMINDER**

No Child Left Behind Act (NCLB Act) enacted on January 8, 2002, required that all paraprofessionals hired after January 8, 2002 must have (1) completed two years of study at an institution of higher education; (2) obtained an associate's (or higher) degree; or (3) demonstrate, through a formal State or local academic assessment, knowledge of and the ability to assist in instructing reading, writing, and mathematics (or, as appropriate, reading readiness, writing readiness, and mathematics readiness). Paraprofessionals hired before January 8, 2002 and working in a program supported with Title I funds also must meet these requirements by January 8, 2006.

**MICHIGAN FINANCE QUALIFYING STATEMENT**

Beginning January 1, 2004, all governmental units subject to the Revised Municipal Finance Act (PA 34 of 2001) must submit their qualifying statement electronically using the Department of Treasury's website. The District is required to file this statement with the Department of Treasury by December 31, 2005.

**ELECTRONICALLY FILING THE FINANCIAL STATEMENTS**

Beginning with the fiscal year ended June 30, 2005, the District must submit their financial statements to the State of Michigan electronically. To do so, the financial statements must be created electronically in an Adobe Acrobat file. This file may also be forwarded to bond counsel for preparation of the SEC continuing disclosures and to the Michigan Department of Education to fulfill the District's annual reporting requirements. We will provide an electronic version of the financial statements for your use.

**CONCLUSION**

It has been a pleasure to provide audit services to *Pellston Public Schools*. Management was well prepared for the audit, providing us with all requested information.

We appreciate your business! Thank you.